

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA )**  
**UTILITY REGULATORY COMMISSION'S )**  
**INVESTIGATION OF MATTERS )**  
**RELATED TO THE CONTINUED ) CAUSE NO. 43115**  
**BUSINESS PRACTICES OF RIVER'S )**  
**EDGE UTILITY, INC., IN THE STATE OF )**  
**INDIANA PURSUANT TO INDIANA CODE )**  
**8-1-2-1(A), 8-1-2-58, 8-1-2-69, 8-1-2-89, et seq. )**

**SETTLEMENT TESTIMONY**

**OF**

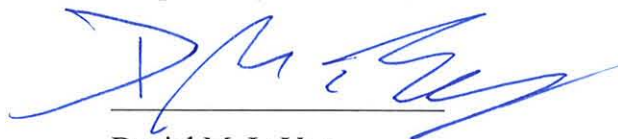
**MARGARET A. STULL - PUBLIC'S EXHIBIT #1**

**ON BEHALF OF**

**THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**DECEMBER 3, 2009**

Respectfully submitted,



Daniel M. LeVay  
Deputy Consumer Counselor

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on December 3, 2009.

Mr. J. Christopher Janak  
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Indianapolis, Indiana 46204

River's Edge Utility, Inc.  
4513 Stoneview Dr.  
Charlestown, IN 47111

J. David Agnew  
Ward & King, LLC  
3602 Northgate Court, Suite 27  
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Daniel M. Le Vay, Atty. No. 22184-49  
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**TESTIMONY IN SUPPORT OF SETTLEMENT  
OF  
MARGARET A. STULL  
CAUSE NO. 43115  
WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY, INC.**

**I. Introduction**

1   **Q:**    Please state your name and business address.

2   A:    My name is Margaret A. Stull, and my business address is 115 W. Washington St.,  
3       Suite 1500 South, Indianapolis, Indiana 46204.

4   **Q:**    By whom are you employed and in what capacity?

5   A:    I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a  
6       Utility Analyst II in the Water/Wastewater Division.

7   **Q:**    Please describe your background and experience.

8   A:    I graduated from the University of Houston at Clear Lake City in August 1982 with  
9       a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position  
10      of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 until  
11      2001 I worked for Enron in various positions of increasing responsibility and  
12      authority; first in their gas pipeline accounting department, then in financial  
13      reporting and planning, both for the gas pipeline group and the international group,  
14      and finally providing accounting support for infrastructure projects in Central and  
15      South America. From 2002 until 2003, I held non-utility accounting positions in

1 Indianapolis. In August 2003, I accepted my current position with the OUCC.  
2 Since joining the OUCC I have attended the NARUC Eastern Utility Rate School in  
3 Clearwater Beach, Florida.

4 **Q: Do you hold any professional licenses?**

5 A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of  
6 Texas.

7 **Q: Have you testified previously before the Indiana Utility Regulatory**  
8 **Commission ("IURC" or "Commission")?**

9 A: Yes.

10 **Q: What is the purpose of your testimony in this proceeding?**

11 A: The purpose of my testimony is to provide support for the settlement reached  
12 between the OUCC and Wastewater One, LLC for rates only. This settlement does  
13 not address the issue of who should be allowed to purchase and operate the utility  
14 assets.

15 **Q: What have you done to formulate your opinions and prepare your testimony in**  
16 **this phase of the cause?**

17 A: I reviewed Wastewater One's testimony. I participated in the preparation of  
18 discovery questions and reviewed Petitioners responses. I participated in several  
19 meetings with other OUCC staff to identify and discuss the issues in this cause.

**Q: Are any schedules submitted with your testimony?**

**A:** Yes. I am sponsoring the following accounting schedules:

Schedule 1 – Revenue Requirement, Gross Revenue Conversion Factor, and  
Reconciliation of Net Operating Income Statement Adjustments

Schedule 2 – *Pro forma* Net Operating Income Statement

Schedule 3 – Expense Adjustments

Schedule 4 – *Pro forma* Rate Base

Schedule 5 – *Pro forma* Capital Structure

Schedule 6 – Current and Proposed Tariff

**Q: Are any attachments submitted with your testimony?**

**A:** Yes. I include the following attachments with my testimony:

- MAS Attachment 1 - Wastewater One, LLC's responses to OUCC  
Discovery Request No. 5 dated September 21, 2009
- MAS Attachment 2 - Current Prime Rate per Wall Street Journal
- MAS Attachment 3 - Picture of Wastewater One Truck
- MAS Attachment 4 - Mowing Estimates
- MAS Attachment 5 - Liability Insurance Estimate

## **II. Settlement on Rates**

**Q: Please describe the settlement agreement as it pertains to Petitioner's rates.**

**A:** The OUCC and Wastewater One have agreed that if Wastewater One is authorized to acquire the assets of River's Edge Utility, Inc., Wastewater One should be authorized to an across-the-board rate increase of 76.83% over the utility's current rates. This increase would yield a flat monthly rate of \$79.68 or \$7.97 per 1,000 gallons. No change to rate design is being proposed or implemented at this time.

**Q: What revenue requirement yields the 76.83% rate increase agreed to by Wastewater One and the OUCC?**

**A:** Table MAS-1 provides a comparison of the revenue requirements proposed by Wastewater one and the OUCC with the revenue requirement agreed to in settlement.

**MAS Table 1: Comparison of Revenue Requirements**

	<u>Wastewater One, LLC</u>	<u>OUCC</u>	<u>Settlement</u>
Original Cost Rate Base	\$ 78,285	\$ 60,190	\$ 60,190
Times: Weighted Cost of Capital	12.00%	10.00%	8.86%
Net Operating Income Required for Return on Rate Base	9,397	6,019	5,333
Less: <i>Pro forma</i> Net Operating Income	(31,876)	(10,152)	(11,990)
Net Revenue Requirement	41,273	16,171	17,323
Gross Revenue Conversion Factor	169.2170%	101.5304%	168.3469%
Recommended Revenue Increase	\$ 69,841	\$ 16,418	\$ 29,163
Recommended Percentage Increase	248.297%	43.25%	76.83%

**Original Cost Rate Base**

**Q: Please explain the settlement on original cost rate base.**

**A:** Wastewater One agreed to the OUCC's position on rate base which consisted of the initial purchase price of \$11,190 plus transaction costs of \$9,000, rate case costs of \$35,000, and working capital of \$5,000 for a total original cost rate base of \$60,190.  
(See Settlement Accounting Schedule 4.)

**Weighted Average Cost of Capital**

**Q: Please explain the weighted average cost of capital agreed to by Wastewater One and the OUCC.**

**A:** Wastewater One and the OUCC agreed to a weighted average cost of capital of 8.86% as detailed in MAS Table 2 below.

**MAS Table 2: Calculation of Weighted Average Cost of Capital**

	(A) Parent Company	(B) Amount	(C) Cost	(A x C) Weighted Cost
Common Equity	73.98%	\$ 44,529	10.50%	7.77%
Long-term Debt	17.67%	10,636	2.63%	0.46%
Preferred Stock	7.02%	4,225	9.00%	0.63%
Deferred Taxes	1.33%	800	0.00%	0.00%
Totals	<u>100.00%</u>	<u>\$ 60,190</u>		<u>8.86%</u>

**Q: Please explain the capital structure proposed by the settlement.**

**A:** Wastewater One, LLC is a wholly owned subsidiary of The Hughes Group and, as discussed later in my testimony, is included in its consolidated tax return. Initially, Wastewater One proposed a capital structure composed entirely of equity funds. Since The Hughes Group is the source of Wastewater One's investment funds, the proper capital structure to use in calculating the appropriate cost of capital, in this case, is the parent company's capital structure. The settlement uses the June 30, 2009 Hughes Group capital structure (MAS Attachment 1) to calculate the weighted average cost of capital.

1    **Q:    Please explain the cost of equity agreed to by Wastewater One and the OUCC.**

2    A:    Wastewater One and the OUCC agreed to a 10.5% cost of equity. While the OUCC  
3        proposed a 10.0% cost of equity, this was based on pre-approval of planned capital  
4        projects. Such a pre-approval, or guarantee, that certain investments will be included  
5        in rate base would lower Wastewater One's risk and therefore its cost of equity. The  
6        10.5% cost of equity to which the OUCC agreed is based on the premise that pre-  
7        approval is not being granted in this Cause.

8    **Q:    Please explain the cost of debt agreed to by Wastewater One and the OUCC.**

9    A:    The cost of debt is per Wastewater One's response to OUCC discovery (MAS  
10        Attachment 1). The interest rate on The Hughes Group long-term debt is .625 below  
11        prime. The settlement assumes a prime rate of 3.25% (MAS Attachment 2) yielding  
12        a 2.625% cost of debt.

13   **Q:    Please explain the cost of preferred stock agreed to by Wastewater One and the**  
14   **OUCC.**

15   A:    The cost of preferred stock is 9% per Wastewater One's response to OUCC  
16        discovery (MAS Attachment 1).

**Pro forma Net Operating Income**

17   **Operating Revenues:**

18   **Q:    What operating revenues have Wastewater One and the OUCC agree to??**

19   A:    Wastewater One agreed to the OUCC's *pro forma* present rate operating revenues  
20        of \$37,960. These operating revenues assume unmetered revenues of \$31,902 from

85 customers, metered revenues of \$5,950 from 20 customers, and \$108 of late payment fees.

### **Operating Expenses**

**Q: What operating expenses have Wastewater One and the OUCC agreed to?**

**A:** Wastewater One and the OUCC agreed to *pro forma* operating expenses of \$55,019.

MAS Table 3 presents a comparison of the operating expenses proposed with the operating expenses agreed to in the settlement.

**MAS Table 3: Operating Expense Comparison**

	<b>Wastewater One, LLC</b>	<b>OUCC</b>	<b>Settlement</b>
Contractual Services			
Certified Operator	\$ 23,400	\$ 23,400	\$ 23,400
Equipment Charge	6,600	4,290	6,600
Mowing Services & Other	11,007	4,500	9,800
Accounting	500	500	500
Legal	500	500	500
	<u>42,007</u>	<u>33,190</u>	<u>40,800</u>
Purchased Power	1,500	1,504	1,504
Rate Case Expense	17,500	-	-
Amortization of Transaction Costs	900	-	-
Other Operating Expenses			
Chemicals	600	600	600
Corporate Allocation	1,200	1,200	1,200
Testing	426	426	426
Sludge Hauling	1,107	1,107	1,107
Materials & Supplies	3,550	3,550	3,550
Billing	373	373	373
Transportation	1,150	-	-
Phone	227	-	-
Postage	213	213	213
Insurance	5,548	2,775	5,000
Utilities	800	-	-
Miscellaneous	852	200	200
	<u>16,046</u>	<u>10,444</u>	<u>12,669</u>
Bad Debt Expense	341	-	-
IURC Fee	37	46	46
Total Operating Expenses	<u>\$ 78,331</u>	<u>\$ 45,184</u>	<u>\$ 55,019</u>

1   **Q:   Please explain the contract services expenses agreed to by Wastewater One and**  
2   **the OUCC.**

3   A:   There are three contract service expenses in dispute – equipment charges, mowing  
4       expenses and engineering expenses.   Wastewater One disagreed with the OUCC's  
5       use of the IRS mileage rate and provided additional information regarding the type  
6       of truck that will be used to provide service to River's Edge Utility (MAS  
7       Attachment 3).   Based on this additional information, the OUCC agreed that  
8       Wastewater One's proposed annual equipment charges of \$6,600 should be allowed.  
9       Wastewater One also provided additional information regarding its proposed  
10      mowing costs of \$9,800 (MAS Attachment 4).   Based on this additional information,  
11      the OUCC agreed that Wastewater One's proposed annual mowing charges of  
12      \$9,800 should be allowed.   Finally, Wastewater One agreed that the additional  
13      engineering costs would be capital in nature and should not be included in operating  
14      expenses for purposes of calculating rates.

15   **Q:   Please explain how the settlement treats rate case costs and transaction costs.**

16   A:   As discussed previously in my testimony, these costs are included in original cost  
17      rate base.   Wastewater One will recover these costs through depreciation expense  
18      over 45 years (2.2%) and will earn a return on the undepreciated balance rather than  
19      recovering them through amortization expense.

20   **Q:   Please explain the miscellaneous expenses agreed to by Wastewater One and**  
21   **the OUCC.**

22   A:   There are four miscellaneous expenses in dispute – transportation, phone, insurance,  
23      and utilities expense.   Wastewater One agreed with the OUCC that its proposed

1 phone and utilities expenses were related to the proposed capital improvements,  
2 which are not included in rates in this cause. Wastewater One also agreed with the  
3 OUCC that the transportation expenses included in miscellaneous expenses  
4 duplicates expenses already included in equipment charge under contractual  
5 services. Wastewater one provided additional information for its proposed liability  
6 insurance expenses (MAS Attachment 5) and the OUCC agreed to include \$5,000 in  
7 rates for liability insurance in this cause.

8 **Q: Please explain the bad debt expense and IURC fee expenses included in the**  
9 **settlement.**

10 A: Wastewater One has accepted the OUCC's position regarding bad debt expense.  
11 IURC fees are directly related to *pro forma* revenues. Since Wastewater One has  
12 agreed to the OUCC's proposed operating revenues, it has also agreed to the  
13 OUCC's proposed IURC fees as well.

#### 14 **Depreciation Expense**

15 **Q: What Depreciation Expense has Wastewater One and the OUCC agreed to?**

16 A: Wastewater One has agreed to the OUCC's proposed annual depreciation expense of  
17 \$1,214, 2.2% of *pro forma* utility plant of \$55,190.

#### 18 **Income and Other Taxes**

19 **Q: What Other Taxes have Wastewater One and the OUCC agreed to include in**  
20 **rates in this cause?**

21 A: Wastewater One has agreed to the OUCC's proposed property tax expense of \$1,197  
22 and the OUCC's proposed utility receipts taxes of \$517.

1 **Q: What Income Taxes have Wastewater One and the OUCC agreed to include in**  
2 **rates in this cause?**

3 A: Wastewater One proposed the inclusion of state and federal income taxes in rates in  
4 this cause. The OUCC did not include any state and federal income taxes in its  
5 proposed rates in this cause since Wastewater One is a limited liability company  
6 (LLC). However, subsequent to its filing, the OUCC confirmed that, in accordance  
7 with IRS procedures, Wastewater One is being treated as a corporation for federal  
8 income tax purposes. Wastewater One is included in The Hughes Group's (parent  
9 company) consolidated income tax returns. As such, the OUCC has agreed that  
10 Wastewater One should be authorized to include state and federal income taxes in  
11 rates in this cause. Wastewater One and the OUCC have agreed to include a state  
12 income tax benefit of \$1,678 (8.5%) and a federal income tax benefit of \$6,319  
13 (34%) in *pro forma* present rate net income. Settlement Accounting Schedule 3,  
14 Adjustment 7 shows the calculation of these *pro forma* present rate income taxes.  
15 The income tax expense for the proposed rate increase is included in the gross  
16 revenue conversion factor.

17 **Gross Revenue Conversion Factor**

18 **Q: What Gross Revenue Conversion Factor has Wastewater One and the OUCC**  
19 **agreed to?**

20 A: Wastewater one proposed a factor of 169.217%. The OUCC proposed a factor of  
21 101.530%. Wastewater One and the OUCC have agreed to a factor of 168.347%.  
22 This factor includes state income taxes at 8.5% and federal income taxes at 34%.

1           This factor also includes IURC fees at the current rate of .1073599% but does not  
2           include any bad debt expense.

3    **Q:    Does this conclude your testimony?**

4    A:    Yes.

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**DATA REQUEST**

**IURC INVESTIGATION  
RIVER'S EDGE WATER UTILITY  
CAUSE NO. 43115**

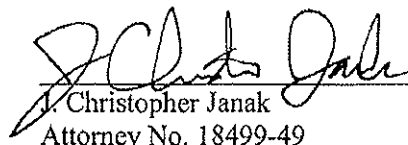
**WASTEWATER ONE, LLC'S RESPONSES TO THE  
OFFICE OF UTILITY CONSUMER COUNSELOR'S  
FIFTH SET OF DATA REQUESTS**

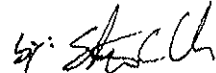
Wastewater One, LLC ("Wastewater One"), by counsel, respectfully submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Fifth Set of Data Requests dated September 21, 2009. Wastewater One states as follows:

- Q-80:** Please provide a copy of the current Form 8832 ("Entity Classification Election") filed with the IRS for Wastewater One, LLC.
- A-80:** The current owners of Wastewater One, LLC ("Wastewater One") do not have a copy of Form 8832. In approximately 2004, the Hughes Group, Inc. ("HGI") purchased the membership interests in Wastewater One. Because HGI purchased the interests in Wastewater One, the original Form 8832 that had been filed by the previous owner still applies to the company. A new Form 8832 was not filed as it was not required. Unfortunately, the prior owner did not provide a copy of the Form 8832, as such form is on file with the Internal Revenue Service. Notwithstanding the foregoing, River's Edge has previously provided the Articles of Organization, Certificate of Organization, and Operating Agreement of Wastewater One specifically indicating that Wastewater One would be taxed as a corporation, not as a partnership or flow-thru entity.
- Q-81:** Please provide the tax depreciation rate(s) to be used by Hughes Group and/or Wastewater One for the Rivers Edge assets.
- A-81:** Wastewater One has provided documents and/or access to papers that are responsive to this request.
- Q-82:** Please provide the dollar value of each component of Hughes Group's capital structure as of 6/30/09, 12/31/08, and 12/31/07.

A-82: Please see attached.

Respectfully submitted,

  
J. Christopher Janak

by:   
Att. # 25844-49


Attorney No. 18499-49  
BOSE MCKINNEY & EVANS LLP  
111 Monument Circle, Suite 2700  
Indianapolis, IN 46204  
(317) 684-5000 Telephone  
(317) 684-5173 Facsimile

Attorney for Wastewater One, LLC

**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and accurate copy of the foregoing *Wastewater One, LLC's Responses to the Indiana Office of Utility Consumer Counselor's Fifth Set of Data Requests to River's Edge Water Utility* has been duly served upon the following via electronic mail this 15<sup>th</sup> day of October, 2009:

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Christopher Janak

*Bi. Still*  
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(317) 684-5173 Facsimile

1514023\_1

Huges Group, Inc. and Subsidiaries

Capital Structure

June 30, 2009

	Balance
Common Equity	8,598,508
Preferred Stock	816,494
LTD	2,053,333
Deferred Taxes	154,400

Note: The above listing was prepared from the consolidated balance sheet of Huges Group, Inc., and Subsidiaries without audit. The cost of preferred stock is 9% and the interest rate on the debt is .625 below prime.

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Huges Group, Inc. and Subsidiaries

Capital Structure

December 31, 2008

	Balance
Common Equity	7,635,608
Preferred Stock	816,494
LTD	2,108,333
Deferred Taxes	154,400

Note: The above listing was prepared from the consolidated balance sheet of Huges Group, Inc., and Subsidiaries without audit. The cost of preferred stock is 9% and the interest rate

on the debt is .625 below prime.

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Huges Group, Inc. and Subsidiaries

Capital Structure

December 31, 2007

	Balance
Common Equity	6,714,040
Preferred Stock	1,632,986
LTD	2,756,272
Deferred Taxes	339,000

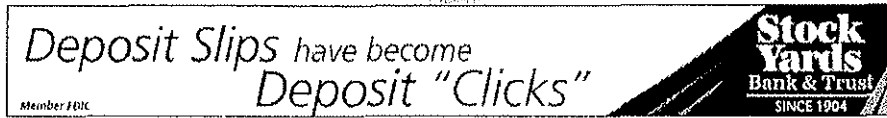
Note: The above listing was prepared from the consolidated balance sheet of Huges Group, Inc., and Subsidiaries without audit. The cost of preferred stock is 9% and the interest rate on the debt is .25 below prime for an outstanding balance of \$581,272 and .22 over the one month LIBOR rate for the remainder.

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#### INTEREST RATES

Prime rate, fed funds, COPI  
 by Bankrate.com

The prime rate, as reported by the Wall Street Journal's bank survey, is among the most widely used benchmark in setting home equity lines of credit and credit card rates. It is in turn based on the fed funds rate, which is set by the Federal Reserve. The COPI (11th District cost of funds index) is a widely used benchmark for adjustable-rate mortgages.

Click on the links below to find a fuller explanation of the term.

#### Prime rate, fed funds, COPI

Updated 11/24/2009

	This week	Month ago	Year ago
WSJ Prime Rate	3.25	3.25	4.00
Federal Discount Rate	0.50	0.50	1.25
Fed Funds Rate (Current target rate 0-0.25)	0.25	0.25	1.00
11th District Cost of Funds	1.259	1.272	3.125

#### Ratings methodology

What's included? The fed funds rate is the primary tool that the Federal Open Market Committee uses to influence interest rates and the economy. Changes in the fed funds rate have far-reaching effects by influencing the borrowing cost of banks in the overnight lending market, and subsequently the returns offered on bank deposit products such as certificates of deposit, savings accounts, and money market accounts. Changes in the fed funds rate and the discount rate also dictate changes in the Wall Street Journal Prime Rate, which is of interest to borrowers. The prime rate is the underlying index for most credit cards, home equity loans and lines of credit, auto loans, and personal loans. Many small business loans are also indexed to the Prime rate. The 11th District Cost of Funds is often used as an index for adjustable-rate mortgages.

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#### Compare Mortgage Rates

##### FIXED RATES

10 year fixed  
 15 year fixed  
 20 year fixed  
 30 year fixed  
 30 year FHA

##### ADJUSTABLE RATES (ARMs) AND INTEREST ONLY (IOs)

1 year ARM  
 2 year ARM  
 3 year ARM  
 5 year ARM  
 7 year ARM  
 10 year ARM  
 1 year ARM ref  
 2 year ARM ref  
 3 year ARM ref  
 5 year ARM ref  
 7 year ARM ref  
 10 year ARM ref  
 1 year ARM IO  
 2 year ARM IO  
 3 year ARM IO  
 5 year ARM IO  
 7 year ARM IO  
 10 year ARM IO  
 30 year fixed IO ref  
 See all ARMs

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Home Description:

Credit Profile:

Property Location:

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30 year ARM  
 4.89%

Zip code:

Product:

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SELECT A LOAN	RATES
<input type="checkbox"/> 30 Year Fixed	4.625%*
<input type="checkbox"/> 15 Year Fixed	4.25%*
<input type="checkbox"/> 10 Year Fixed	4.125%*
OTHER LOAN OPTIONS:	
<input type="checkbox"/> 7 Year ARM	<input type="checkbox"/> 5/1 ARM I/O
<input type="checkbox"/> 5 Year ARM	<input type="checkbox"/> 30 Year Fixed I/O
<input type="checkbox"/> 3 Year ARM	<input type="checkbox"/> HELOC
<input type="checkbox"/> 1 Year ARM	<input type="checkbox"/> Home Refinance
*Term and conditions apply the easy-to-use site	

#### Mortgage Overnight Averages

About this table

Product	Rate	47	Last week
30 yr fixed	4.80%		4.80%
15 yr fixed	4.48%		4.55%
5-1 ARM	4.18%		4.20%
30 yr fixed refi	4.90%		5.00%

View rates in your area:

#### SELECT A LOAN TYPE

☐ 30 Year Fixed - 4.625%\* ☐ 7 Year ARM

☐ 15 Year Fixed - 4.25%\* ☐ 5 Year ARM

☐ 10 Year Fixed - 4.125%\* ☐ 3 Year ARM

the easy-to-use site

Mortgage	Rate	APR	FHA	Rate	APR
30 Year Fixed	4.600%	4.368%	30 Year Fixed	4.250%	4.830%
15 Year Fixed	3.750%	4.115%	15 Year Fixed	4.000%	4.513%
3 Year ARM	2.625%	3.404%	3 Year ARM	3.750%	3.178%

AmeriSave Direct Mortgage Lender  
 4200K Loan, 4200B 1420K Loan, FL 10% CLTY, 10% down, 10% down, 10% down



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Schipper's Lawn Service  
1103 Pebble Creek Drive  
Jeffersonville, IN 47130

**Property Address**

4513 Stoneview Drive  
Charlestown, Indiana 47111

Estimate for services.

Cut, trim and blow off approximately 5 acres. \$326.67/ cutting  
30 Cuttings per year  $\$326.67 \times 30 = \$9800.00$

KAS ENTERPRISES, INC.

220 BLUE RIDGE ROAD

CHARLESTOWN IN 47111  
502 500 7375

WASTEWATER ONE  
6200 E. HIGHWAY 62  
BLDG. 2501, SUITE 250  
JEFFERSONVILLE, IN 47130

OCTOBER 1, 2009

**PROPOSAL**

MOWING PROPOSAL INCLUDES LABOR, EQUIPMENT AND FUEL  
FOR:

**MOUND AREA:**

ONCE A WEEK DURING SPRING  
MONTHS APRIL AND MAY

ONCE A WEEK DURING JUNE AND  
JULY IF WET SEASON OCCURS

TWICE A MONTH DURING AUGUST,  
SEPTEMBER AND OCTOBER

**WATER AND SEWER EASEMENTS ADJACENT TO TWO  
ROADWAYS, STONEVIEW DRIVE AND RIVER'S EDGE DRIVE,  
COVERING APPROXIMATELY TWO AND ONE FOURTH MILES.**

YEAR 2010 AT CURRENT 2009 FUEL (GAS) RATES

\$9,800.00

INSURANCE      SELF INSURANCE      RISK MANAGEMENT      EMPLOYEE BENEFITS      SURETY

October 3, 2009

Dear Sir or Madam:

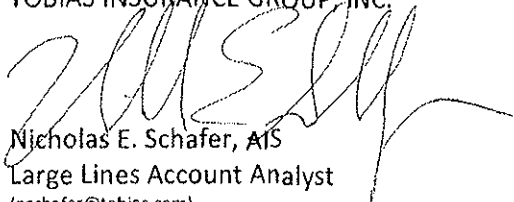
Following is an estimate of the annual insurance premiums that will apply with respect to your proposed purchase of the River's Edge Water and Wastewater Utility assets and operation thereof:

**Wastewater One, LLC - River's Edge Water & Wastewater Utility  
Insurance Premium Estimate**

Real Property	\$ 1,216.00
Pollution Legal Liability - Sewer Treatment Facility	
& Lines	3,280.00
Liability (General & Umbrella)	1,200.00
<b>Total</b>	<b>\$ 5,696.00</b>

Sincerely,

TOBIAS INSURANCE GROUP, INC.

  
Nicholas E. Schafer, AIS  
Large Lines Account Analyst  
(nschafer@tobias.com)

nes

**WASTEWATER ONE, LLC**  
**ACQUISITION OF RIVER'S EDGE UTILITY**  
**CAUSE NUMBER 43115**

**Revenue Requirements**

	<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>	<u>Sch Ref</u>
Original Cost Rate Base	\$ 78,285	\$ 60,190	\$ 60,190	4
Times: Weighted Cost of Capital	12.00%	10.00%	8.86%	5
Net Operating Income Required for Return on Rate Base	9,397	6,019	5,333	
Less: <i>Pro forma</i> Net Operating income	(31,876)	(10,152)	(11,990)	2
Net Revenue Requirement	41,273	16,171	17,323	
Gross Revenue Conversion Factor	169.2170%	101.5304%	168.3469%	1
Recommended Revenue Increase	<u>\$ 69,841</u>	<u>\$ 16,418</u>	<u>\$ 29,163</u>	
Recommended Percentage Increase	<u>248.297%</u>	<u>43.25%</u>	<u>76.83%</u>	
Overall Percentage Increase				

**Combined Water and Wastewater Rates**

	<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>	<u>Sch Ref</u>
<b><u>Current Flat Monthly Rate</u></b>				
Current Rate = \$ 45.06	\$ 156.94	\$ 64.55	\$ 79.68	6
<b><u>Current Rate per 1,000 Gallons of Consumption</u></b>				
Current Rate = \$ 4.51	\$ 15.71	\$ 6.46	\$ 7.97	6

**WASTEWATER ONE, LLC**  
**ACQUISITION OF RIVER'S EDGE UTILITY**  
**CAUSE NUMBER 43115**

**Gross Revenue Conversion Factor**

	<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>	
1 Gross revenue Change	100.0000%	100.0000%	100.0000%	\$ 29,163
2 Less: Bad Debt Rate	<u>0.5000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	-
3 Sub-total	99.5000%	100.0000%	100.0000%	
4 Less: IURC Fee	<u>0.1204000%</u>	<u>0.1073599%</u>	<u>0.1073599%</u>	31
5 Income Before State Income taxes	99.379600%	99.892640%	99.892640%	
6 Less: State Income Tax (8.5% of Line 5)	8.4473%	0.0000%	8.4909%	2,477
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.3930%</u>	<u>1.4000%</u>	<u>1.4000%</u>	407
8 Income before Federal income Taxes	89.5393%	98.4926%	90.0017%	
9 Less: Federal income Tax (35% of Line 8)	<u>30.4436%</u>	<u>0.0000%</u>	<u>30.6006%</u>	8,925
10 Change in Operating Income	<u>59.0957%</u>	<u>98.4926%</u>	<u>59.4011%</u>	\$ 17,323
11 Gross Revenue Conversion Factor	<u>169.217%</u>	<u>101.530%</u>	<u>168.347%</u>	

**WASTEWATER ONE, LLC**  
**ACQUISITION OF RIVER'S EDGE UTILITY**  
**CAUSE NUMBER 43115**

**Reconciliation of Net Operating Income Statement Adjustments**  
*Pro Forma Present Rates*

	<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>
Operating Revenues			
Unmetered Revenue	\$ (1,796)	\$ 9,562	\$ 9,562
Metered Revenue	2,107	473	473
Penalties	-	-	-
Other Operating Revenue	-	(2,335)	(2,335)
Total Operating Revenues	<u>311</u>	<u>7,700</u>	<u>7,700</u>
O&M Expense			
Purchased Power	796	-	-
Contractual Services	23,100	14,283	21,893
Rate Case Expense	17,500	-	-
Purchase Costs	900	-	-
Other Operating Expenses	4,990	(153)	2,072
IURC Fee	37	46	46
Depreciation Expense	-	(1,358)	(1,358)
Amortization Expense	-	-	-
Taxes Other than Income:			
Property Tax	509	131	131
Utility Receipts Tax	(81)	27	27
State Income Tax	(4,271)	-	(1,678)
Federal Income Tax	(16,169)	-	(6,319)
Total Operating Expenses	<u>27,311</u>	<u>12,976</u>	<u>14,814</u>
Net Operating Income	<u>\$ (27,000)</u>	<u>\$ (5,276)</u>	<u>\$ (7,114)</u>

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

***Pro-forma* Net Operating Income Statement**

	<b>Year Ended 12/31/08</b>	<b>Adjustments</b>	<b>Sch Ref</b>	<b><i>Pro-forma</i> Present Rates</b>	<b>Adjustments</b>	<b>Sch Ref</b>	<b><i>Pro-Forma</i> Proposed Rates</b>
Operating Revenues							
Unmetered Revenue	\$ 22,340	\$ 9,562	OUCC	\$ 31,902	\$ 24,510	1	\$ 56,412
Metered Revenue	5,477	473	OUCC	5,950	4,571	1	10,521
Penalties	108			108	83	1	191
Miscellaneous Service Revenue	1,035	(1,035)	OUCC	-			-
Other Operating Revenue	1,300	(1,300)	OUCC	-			-
Total Operating Revenues	<u>30,260</u>	<u>7,700</u>		<u>37,960</u>	<u>29,163</u>		<u>67,124</u>
O&M Expense	31,008			55,019			55,050
Contractual Services		21,893	3-1				
Other Operating Expenses		2,072	3-2				
Bad Debt Expense		-			-	1	
IURC Fee		46	3-3		31	1	
Depreciation Expense	2,572	(1,358)	3-4	1,214			1,214
Amortization Expense	-			-			-
Taxes Other than Income:							
Payroll Tax	-			-			-
Property Tax	1,066	131	3-5	1,197			1,197
Utility Receipts Tax	490	27	3-6	517	407	1	924
Income Taxes:							
State Income Tax	-	(1,678)	3-7	(1,678)	2,477	1	799
Federal Income Tax	-	(6,319)	3-7	(6,319)	8,925	1	2,606
Total Operating Expenses	<u>35,136</u>	<u>14,814</u>		<u>49,950</u>	<u>11,840</u>		<u>61,790</u>
Net Operating Income	<u>\$ (4,876)</u>	<u>\$ (7,114)</u>		<u>\$ (11,990)</u>	<u>\$ 17,323</u>		<u>\$ 5,334</u>

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

**Expense Adjustments**

(1)

**Contractual Services**

To increase operating expenses to include the cost of accounting and legal services as well as a certified operator and equipment charges.

Certified Operator		
Estimated hours per year (water & sewer)	520	
Times: Hourly Rate	\$ 45.00	
<i>Pro forma</i> Contract Labor		23,400
Equipment Charge		6,600
Mowing Services for Mound field		9,800
Estimated Accounting Services		500
Estimated Legal Services		500
<i>Pro forma</i> contractual services		40,800
Less: Test Year		(18,907)
<b>Adjustment Increase (Decrease)</b>		<b>\$ 21,893</b>

(2)

**Other Operating Expenses**

To adjust operating expenses for *pro forma* estimated costs.

Chemicals	600	
Corporate Allocation	1,200	
Testing	426	
Sludge Hauling	1,107	
Materials & Supplies	3,550	
Billing	373	
Postage	213	
Insurance	5,000	
Miscellaneous (Call before you Dig Membership)	200	
<i>Pro forma</i> Other Operating Expenses		\$ 12,669
Less: Test Year Other Operating Expenses		(10,597)
<b>Adjustment Increase (Decrease)</b>		<b>\$ 2,072</b>

WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115

Expense Adjustments

(3)

IURC Fee

To adjust operating expenses to reflect the IURC fee on present rate revenues.

<i>Pro forma</i> Present Rate Revenues	\$	37,960	
Times: Current IURC Fee		0.1203993%	
<i>Pro forma</i> IURC Fee			\$ 46
Less: Test Year IURC Fee			-
Adjustment Increase (Decrease)			\$ 46

(4)

Depreciation Expense

To adjust depreciation expense to reflect current plant.

<b>Phase I</b> Total Utility Plant	\$	55,190	
Depreciation Rate		2.2%	
<i>Pro forma</i> Depreciation Expense			1,214
Less: Test Year Depreciation Expense			(2,572)
Adjustment Increase (Decrease)			\$ (1,358)

(5)

Property Taxes

To adjust taxes other than income tax for *pro forma* property taxes.

2008 Property Tax Payment	\$	1,197	
Less: Test Year Property Tax Expense			(1,066)
Adjustment Increase (Decrease)			\$ 131

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

**Expense Adjustments**

(6)

**Utility Receipts Taxes**

To adjust taxes other than income tax to reflect Utility Receipts Tax on Present Rate Revenues.

<i>Pro forma</i> Present Rate Revenues	\$ 37,960		
Less: Bad Debt Expense	-		
Exemption	(1,000)		
		36,960	
Utility Receipts Tax Rate		1.4%	
<i>Pro forma</i> Utility Receipt Tax Rate			517
Less: Test Year Utility Receipts Tax			(490)
			<u>27</u>
<b>Adjustment Increase (Decrease)</b>			<b>\$ <u>27</u></b>

(7)

**State & Federal Income Taxes - Phase I**

To adjust state and federal income taxes on Present Rate Revenues.

**Federal Income Tax**

Pro forma Present Rate Revenues	\$ 37,960		
Less: Pro forma O&M Expenses	55,019		
Depreciation Expense	1,214		
General Taxes	1,714		
Synchronized Interest	277		
		(58,224)	
Federal Taxable Income (Before State Taxes)		(20,264)	
Less: State Income Taxes		(1,678)	
Federal Taxable Income		(18,586)	
Times: Federal Tax Rate		34.0%	
<i>Pro forma</i> Federal Income Taxes			(6,319)
Less: Test Year			-
<b>Adjustment Increase (Decrease)</b>			<b><u>(6,319)</u></b>

**State Income Tax**

Federal Taxable Income (Before State Taxes)	(20,264)		
Add: Utility Receipts Tax	517		
State Taxable Income	(19,747)		
Times: State Tax Rate	8.5%		
<i>Pro forma</i> State Income Taxes			(1,678)
Less: Test Year			-
<b>Adjustment Increase (Decrease)</b>			<b>\$ <u>(1,678)</u></b>

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

*Pro Forma Rate Base*

		<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>
Utility Plant in Service at 12/31/08		\$ 102,895	\$ -	\$ -
Initial Investment			11,190	11,190
Add: Transaction Costs			9,000	9,000
Rate Case Costs			35,000	35,000
Gross Utility Plant in Service		<u>102,895</u>	<u>55,190</u>	<u>55,190</u>
Less: Accumulated Depreciation		34,214	-	-
Contributions in Aid of Construction		-	-	-
Add: Amortization of CIAC		-	-	-
Net Utility Plant in Service		<u>68,681</u>	<u>55,190</u>	<u>55,190</u>
Add: Materials & Supplies		-	-	-
Working Capital		9,604	5,000	5,000
<i>Pro Forma Rate Base</i>		<u><u>\$ 78,285</u></u>	<u><u>\$ 60,190</u></u>	<u><u>\$ 60,190</u></u>

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

***Pro Forma Capital Structure***

	<u>Parent Company</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	73.98%	44,529	73.98%	10.500%	7.77%
Long Term Debt	17.67%	10,636	17.67%	2.625%	0.46%
Preferred Stock	7.02%	4,225	7.02%	9.000%	0.63%
Deferred Taxes	1.33%	800	1.33%	0.000%	0.00%
Total	<u>100.00%</u>	<u>\$ 60,190</u>	<u>100.00%</u>		<u>8.86%</u>

**Synchronized Interest Calculation**

Total Original Cost Rate Base	\$ 60,190
Times: Weighted Cost of Debt	<u>0.4600%</u>
Synchronized Interest Expense	<u>\$ 277</u>

**WASTEWATER ONE, LLC  
ACQUISITION OF RIVER'S EDGE UTILITY  
CAUSE NUMBER 43115**

**Current and Proposed Rates and Charges**

	<u>Current</u>	<u>Wastewater One, LLC</u>	<u>OUC</u>	<u>Settlement</u>
<b><u>Metered Rates per 1,000 gallons:</u></b>				
Metered Water Service	\$ 4.51	\$ 15.71	\$ 6.46	\$ 7.97
Metered Sewer Service	\$ 4.51	\$ 15.71	\$ 6.46	\$ 7.97
<b><u>Monthly Flat Rate for 'Water &amp; Sewer:</u></b>				
Sold Mobile Home and Camp Lots	\$ 45.06	\$ 156.94	\$ 64.55	\$ 79.68

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Cause Number:43115

Sub Docket Number:NONE

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Cause No:43115  
SubDocket No:NONE  
File Type:CASE  
Filing Party Name:Sandra Daniels  
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